

SENATE FINANCE COMMITTEE  
January 27, 2021  
9:02 a.m.

[9:02:24 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Lyman Hoffman  
Senator Donny Olson  
Senator Natasha von Imhof  
Senator Bill Wielechowski  
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Representative Dan Ortiz

PRESENT VIA TELECONFERENCE

Corri Feige, Commissioner, Department of Natural Resources (DNR), Anchorage; Maduabuchi Pascal Umekwe, Commercial Analyst, Department of Natural Resources, Anchorage.

SUMMARY

^COMMITTEE ORGANIZATION / INTRODUCTION OF MEMBERS AND STAFF

[9:03:00 AM](#)

Co-Chair Stedman introduced the committee members, staff, and protocol of the Senate Finance Committee.

[9:06:47 AM](#)

Co-Chair Bishop introduced his staff. He stated that the Capital Budget will take some time to develop and "unpack."

Senator Olson introduced his staff.

Senator Wielechowski introduced his staff.

Senator Wilson introduced his staff.

Senator Hoffman introduced his staff.

Senator von Imhof introduced her staff.

[9:10:17 AM](#)

Co-Chair Stedman remarked on the experience of the members and staff represented on the committee. He introduced the support staff for the committee. He highlighted the protocols and rules of the committee meetings.

[9:18:41 AM](#)

Co-Chair Stedman commented that there was an intent to quickly complete the work on the operating and capital budgets. He noted that there may be a point to slow down the process in order to accommodate the pace of the other body.

^DEPARTMENT OF NATURAL RESOURCES - PRODUCTION FORECAST

[9:21:28 AM](#)

CORRI FEIGE, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES (DNR), ANCHORAGE (via teleconference), introduced herself. She discussed the presentation, "Fall 2020 Production Forecast SFIN Committee; Maduabuchi Pascal Umekwe, PhD; Alaska Department of Natural Resources, Division of Oil and Gas; January 27, 2021" (copy on file). She remarked that the last year would show the durability of Alaska's producers. She noted that there was significant reductions in personnel.

Commissioner Feige looked at slide 2, "Outline":

- Background
  - o 2020 Pandemic and North Slope oil production
  - o FY2020 in review
- 2020 Production Forecast

- o Result highlights
- o FY2021 Outlook
- o Ten-year outlook
- Summary

Commissioner Feige highlighted slide 3, "2020 Pandemic-Related Production Disruptions." She believed that even with all the pandemic-related issues, North Slope production remained comparable to prior years.

[9:24:07 AM](#)

MADUABUCHI PASCAL UMEKWE, COMMERCIAL ANALYST, DEPARTMENT OF NATURAL RESOURCES, ANCHORAGE (via teleconference), continued to discuss slide 3. He looked at the top left corner, which had the production and the oil prices. He remarked on the change in oil prices within two weeks. He highlighted some aspects of the slide:

March: 2020 CAPEX cut announcements by CPAI and Eni Global (totaling >\$2.5B)

April: More 2020 CAPEX cuts (XOM, COP totaling over 5B), NB drilling fleet demobilization (BPXA, DPAI), Alyeska Pipeline 10 percent to 15 percent proration; CPAI announces 100kbopd Mr. Steininger production cut

July: HAK becomes GPBU operator; CPAI returns curtailed production in KRU and CRU.

November: CPAI announced plans for Dec 2020 Mr. Steininger drilling restart.

[9:29:43 AM](#)

Mr. Umekwe looked at slide 4, "Production and the 2020 Pandemic: Medium/Long Term Effects":

- o Every year of drilling contributes to long term rates. Production from new wells helps to mitigate overall NS production decline. For example, some past years of drilling contribute on average 3 percent to 8 percent of annual NS production for almost a decade.

- o Laydown of drilling rigs in the FY2020/FY2021 is expected to impact NS production decline in the short term as well as the long term. FY2020/FY2021 undrilled

wells constitute a set of 'Missing Wells' that would typically mitigate decline for periods beyond the year the wells are drilled.

- o 'Compensatory' production enhancement activities could mitigate this 'lost development drilling' impact in the short term.

[9:31:48 AM](#)

Mr. Umekwe addressed slide 5, "Overall Perspective: North Slope":

- On average, modest decline in production over the last 5 Fiscal Years:
  - o FY16 to FY20 on average annual 1 percent decline in production
- Recent Major Changes in Production
  - o Prudhoe Bay Unit: Change of operatorship; strong ongoing production optimization efforts
  - o Kuparuk Unit : Natural decline; pandemic related production disruption /interrupted rig activity
  - o Colville River Unit: Natural decline; pandemic related production disruption /interrupted rig activity
  - o Milne Point: 28 percent growth (FY19 to FY 20)-M, L, I pad drilling.
  - o PTU: Progressively improved facility reliability
- Future Projects coming in:
  - o Near future:
    - Fiord West Development, GMT2, Raven Pad in Milne Point Unit, CD5 Expansion
  - o Farther out:
    - Pikka: FEED 2021
    - Willow: FEED; FID YE 2021

[9:36:19 AM](#)

Co-Chair Stedman looked at slide 5, and the reconciliation of the barrel production. He felt that it did not coincide with the Revenue Sources Book.

Mr. Umekwe replied that looking at the Revenue Sources Book, there was a footnote that spoke to specific differentiations between the two departments. He remarked

that DNR focused on the volumes as reported by the Alaska Oil and Gas Conservation Commission (AOGCC). He noted that some assets were used in the North Slope and the Trans-Alaska Pipeline System (TAPS).

Co-Chair Stedman requested a memo in writing highlighting that concern.

Co-Chair Bishop wondered whether the 10,000 bpd was for the enhanced oil recovery.

Mr. Umekwe replied in the affirmative.

[9:39:06 AM](#)

Mr. Umekwe highlighted slide 6, "Status Update of Key Future Projects: North Slope":

Moose Pad Development

Production is online. Production rate 5000 BOPD

Production is online. Production rate 9700+ BOPD

Peak rate: 22,000 barrels of oil per day

CD5 2ndExpansion

Ongoing drilling

Ongoing drilling by YE 2020 after Covid-related interruption

Reaching over 10,000 barrels of oil per day

GMT2

GMT2 Sanctioned in Oct 2018

GMT2 First oil YE 2021

Peak rate: 35,000 to 40,000 barrels of oil per day

Pikka

-Now planned for 2-phases; start of production (Phase 1: 2022; Phase 2: 2024);

-To move to FEED after 15 percent divestment of interests

-Now planned for 2-phases; start of production (Phase 1: 2025);

-To move to FEED 2021; FID & 15 percent AK divestment YE2021 through 2022

Peak design capacity rate, phase 1: 80,000 barrels of oil per day

Willow

Plan to submit Supplemental EIS.

Record of decision expected Q4 2020

Announced first oil: 2025-2026

Plan to submit Supplemental EIS.  
Record of decision achieved, FEED.  
FID expected YE 2021.  
Announced first oil: 2025-2026  
Peak rate: 130,000 barrels of oil per day

Liberty

Final EIS (August 2018). Record of Decision (Oct 2018)  
Start up in 2022, pending litigation on Fed decision.

The 9th Circuit court decision placed project on hold pending operator appeal to the Supreme Court.  
Peak rate: 60,000 to 70,000 barrels of oil per day

Senator Wilson asked about more information in the Liberty lawsuit with Hillcorp, and whether there was anything that the state could do to help encourage a more favorable outcome.

Mr. Umekwe deferred to Commissioner Feige.

Commissioner Feige replied that approximately two weeks prior, the 9th Circuit determined that the process undertaken by the federal government with the biological opinions did not fully address the impact of greenhouse gasses globally. She remarked that it was a question put forward in past litigation, and

Senator von Imhof wondered how DNR might optimize the flow of oil through TAPS.

[9:44:49 AM](#)

Mr. Umekwe replied that DNR was putting forth significant effort in increasing TAPS supply. He remarked that the commissioner may have a presentation related to the subject. He explained that there was support on the permitting front. He remarked that production optimization currently fell to the operators. He stated that, currently, the operators had made assurances that the well stock was healthy and ensuring continued production.

Senator Wielechowski wondered about a settlement as related to Point Thompson. He assumed that everyone was in compliance with the expectation around production.

Mr. Umekwe noted that Point Thompson was a very unique reservoir. He stressed that there was recent significant investment to handle that level of pressure. He stated that ExxonMobil had brought on high level technology to develop the assets. He stressed that the growth in production was related to unlocking the technical challenges.

Co-Chair Stedman felt that the issue of Point Thompson could be examined at a later date.

[9:49:45 AM](#)

Mr. Umekwe discussed slide 8, "Fall 2020 Production Forecast: FY 2021 Outlook":

- For the first 5 months of FY2021 (July 2020 to Nov 2020), on average, daily production has come in within the range forecasted by the DNR.
- Difference between average daily production and mean forecasted statewide production is 40,000 bbl; related to operational and production ramp-up timing decisions

Co-Chair Stedman requested a replication of the slide for FY 22. He also requested the forecast dispersion range for FY 22.

Mr. Umekwe addressed slide 9, "FY 2021 Production Variance July-Nov 2020":

Deferred/forestalled summer turnaround maintenance (TAR) benefits summer oil and NGL production.

Ongoing production optimization efforts improve facility efficiency, as well as facility and well uptimes.

Co-Chair Stedman requested that the slide be outlined in a more orderly matter.

Senator von Imhof stated that the font on the y-axis was very small.

Mr. Umekwe highlighted slide 10, "Comparing Long-Term Projections":

DNR forecasts FY2021 average annual production at 470MBOPD and a range of 413MBOPD and 526 MBOPD

DNR's forecast is a snapshot in time, reflecting current information on all projects considered, as well as operators' current plans.

Operators' long-term outlook falls within DNR's long term forecast range.

DNR's mean case falls below sum of the aggregate of operators' submitted case forecasts, for most of outlook period, reflecting differences in long term development case assumptions between DNR and operators.

[10:01:30 AM](#)

Senator Wilson noticed that the operators in production's numbers in the out years were higher than the previous year's forecast, and asked for the reason for the difference.

Mr. Umekwe replied that the previous year was FY 20, and the operator's numbers for FY 20 were not on the specific chart. The out years showed a difference, because there was a specific analysis run utilized some risk, therefore there would be a difference in what the operator would show.

Mr. Umekwe discussed slide 11, "Long Term Production Outlook: Production Categories":

- Currently producing (CP) fields remain backbone of state oil production in near and medium term. Near-term projects under development (UD), often within existing fields, impact 12-month outlook.
- Future fields (UE), which are currently being evaluated by operators, begin to play a more significant role in farther out in outlook period.
- All new production/projects add to a declining base production



10:06:11 AM

Senator von Imhof looked at slides 10 and 11, which showed the low, medium, and high outlooks. The slides also showed the legacy fields and how the new fields were adding to the declining base production. She stressed that the goal was to support the oil industry. She remarked that carbon energy remained the dominant energy source globally. She stated the new presidential administration wanted to make steps toward new alternative energy, and stressed that the effort would take time. She remarked that, in the meantime, carbon energy must remain viable. She felt that there needed to be facilitation in producing the new wells. She queried DNR's efforts to reach the high production. She noted that the companies needed to feel secure in the tax regime and regulations to sustain the industry in the foreseeable future.

Commissioner Feige replied that Senator von Imhof had highlighted the outline from the Biden administration. She stated that there were efforts toward focusing on the state lands. She stated that DNR was positioned to continue to offer state lands for lease. She remarked that there was a continued optimization of the permitting processes to ensure that applications would be received from explorers and developers. She stated that DNR was intervening when necessary, to work federal lands in the state. She stressed that DNR had an "extremely forward-leaning posture."

10:11:21 AM

Senator Hoffman felt that the current slide was depressing. He remarked that the underdevelopment line was almost invisible. He remarked that promises and efforts had been made by the legislature to attempt to increase TAPS supply. He noted that those efforts were falling short. He recalled discussions around whether to go into harvest mode or adjust the tax structure. He felt that the slide showed that the state was in harvest mode, even though the new tax structure was meant to encourage new development. He asked for some explanation around his perception of the slide.

Commissioner Feige acknowledged that the slide's undeveloped category only represented the anticipated wells to be drilled between the period of July 2020 and June 2021, so it was a very small window of time. She remarked that the slide showed an artificial bias. She pointed out

that at the time of the passage of former legislation, SB 21, none of the new discoveries had been publicized.

10:15:58 AM

Co-Chair Stedman recalled that some of the projects that claimed to be forthcoming were already in process. He asked for help with the new federal administration and the DNR view of the impacts on Alaska's production.

Senator Wilson remarked that there should be an examination of the federal lands, and the impact of future development.

Co-Chair Stedman queried the tools that the federal government used to stop and block the development.

Co-Chair Bishop remarked that Hillcorp was a new developer, and wondered whether they had any permits for infield drilling to increase production.

10:20:27 AM

Commissioner Feige replied that Hillcorp stepped into the operation of the Prudhoe Bay unit in June 2020. She stated that Hillcorp had optimization and cost cutting for production, and were in the process of developing their new infield drilling plans. She noted that the next plan of development would show their plan for infield drilling.

Mr. Umekwe continued to comment on slide 11.

Mr. Umekwe addressed slide 12, "Increasing Uncertainty as New Fields/Projects Come Online":

- Graph above shows seasonal variation in monthly production as well as widening uncertainty for the outlook period through 2030.
- New fields, currently in appraisal and under evaluation, are major drivers for medium/long term uncertainty in overall outlook.

10:26:00 AM

Mr. Umekwe discussed slide 13, "Projects Under Evaluation; Medium to Long Term."

Ms. Feige interjected that the map on slide 13 contained the liberty project, which was located on Federal land.

Co-Chair Stedman responded that the committee would discuss different royalty structures.

Mr. Umekwe displayed slide 14, "New Projects Under Development/Evaluation: Adding to a Declining Base Production":

New projects add to a declining base production. In the absence of new projects, decline of existing fields expected to exceed the 4 percent to 5 percent historical decline of the North Slope.

In scope and estimated ultimate volumes, new projects compare closely with historical PBU/KRU satellites, as well as some standalone developments such as CRU-Alpine.

Inclusion of further risks and timing of new projects is reflected in rates lower than operator-announced estimates.

Actual outcome and timing of these projects remain critical in maintaining North Slope historical 4 percent to 5 percent historical decline or the possibility of flattening or growth in production.

[10:31:42 AM](#)

Co-Chair Stedman recalled that there was possibly a two to three percent decline per year historically. He felt that the oil basin fit that static common outcome. He wondered how technology and increases in efficiencies were considered in the forecast.

Mr. Umekwe replied that the four to five percent was a historical average decline rate, so it was not a projection.

[10:34:06 AM](#)

Co-Chair Stedman stressed that the same comments were made ten years prior, and distinctly remember the two to three percent mark.

Mr. Umekwe discussed slide 15, "Summary":

DNR forecast continues to use the best information available to DNR/DOR, to generate independent production outlook for oil fields within the state, with a focus on generating accurate near-term and realistic long-term forecasts for planning purposes.

Production from projects under evaluation within the 10-year outlook period reflects uncertainty in operator plans towards return to drilling activity, specific project uncertainties, depressed oil prices and commercial risks, as well as project scope and timing risks.

DNR forecasts assume steady-state development on currently producing fields, similar to past history for all the fields.

While considering a wide range of drivers for different fields and potential projects, and excluding specific exogenous production shocks such as production curtailments, prorations, or the full range of options available to operators in daily operations, the DNR forecast has so far provided a reliable range to guide fiscal planning for the State.

10:39:58 AM

Senator Hoffman commented that Alaska had withdrawn from the Energy Council, and it seemed that there should be a reconsideration in the state's participation of the Energy Council.

Co-Chair Stedman stated that some members had rejoined the Energy Council.

Co-Chair Stedman discussed the following day's agenda.

#

ADJOURNMENT

10:44:46 AM

The meeting was adjourned at 10:44 a.m.